FINAL REPORT

OF THE

NOVA SCOTIA TASK FORCE

ON INVESTMENT AND TAXATION

Nova Scotia

Task Force on Investment And Taxation

PO Box 187
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April, 1986

Honourable Greg Kerr
Minister of Finance
Province of Nova Scotia
Halifax, Nova Scotia

Dear Minister:

We are pleased to submit the report of the Nova Scotia Task Force on Investment and Taxation.

The report contains recommendations relating to all areas of review set out in the terms of reference of the Task Force.

Yours sincerely,

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I Executive Summary

The Task Force on Investment and Taxation was formed in April, 1984 and was charged with examining all taxes paid in Nova Scotia and other non-tax vehicles as to their impact on productive investment in the province. The Task Force sought the views of Nova Scotians and others interested in these topics. Independent research on the major taxes levied in Nova Scotia was also undertaken.

The basic premise of the Task Force recommendations is that a productive investment environment is enhanced by a consistent and competitive fiscal environment. Further, the perception of the actual fiscal environment is equally important.

The Task Force found that the perception of a consistent fiscal regime requires a stable government financial position. Deficits represent future tax increases to investors and deter an image of fiscal consistency. The Task Force has endeavoured to present a set of recommendations that will not increase deficits but rather promote efficient expenditures and deficit reductions.

The tax environment for both individuals and businesses must be competitive to attract productive investment. The Task Force found that, overall, Nova Scotia taxes compared favourably with those of other jurisdictions. However, specific changes would enhance the province's investment environment.

The recommendations of the Task Force attempt to improve the investment climate in Nova Scotia by:

- encouraging stability in the tax structure
- providing tax incentives that improve Nova Scotia's competitive position among provinces
- promoting equity investment in business
- reducing taxes for new businesses
- minimizing administrative problems in the tax system.

While 44 recommendations are contained in the report, several measures provide examples of the direction of the Task Force.

To promote tax stability, which will encourage investor confidence, the Task Force suggested that:

- taxes not be raised at this time
- a five-year deficit reduction and fiscal management plan be implemented using an econometric model.

Examples of the recommended tax incentives that would improve Nova Scotia's competitive tax position and attract investment are:

- phase out the assessment of machinery and equipment for property tax purposes
- allow a five year phase-in of property tax on new business.

Promoting equity investment in Nova Scotia will directly encourage investment and long-term economic development. One Task Force recommendation was:

- adopt a personal income tax credit based on equity investments in Nova Scotia companies.

New and small businesses are essential investments for economic growth, and the following measure to reduce taxes on new businesses was one of those recommended:

- grant a corporate income tax holiday for the company's first two years of business.

The Task Force also suggested that changes in the federal income tax structure be considered. In particular, to encourage investment by established corporations, the following was recommended:

- reinstate the deduction of the full capital cost allowance in the year an asset is purchased.

Minimizing administrative problems in the tax structure involves many equally important measures.

To balance the cost of tax incentives, the Task Force recommended cancelling incentives no longer required. A capital tax, restricted to the financial sector, was suggested as a source of revenue that would not significantly affect the province's investment climate. Reductions in direct government expenditure programs were also recommended. In particular, the Task Force recommended that programs be reviewed at least every five years.

The report examines general taxation issues and then reviews specific municipal, provincial and federal tax areas. Although the report focuses on the tax structure, sections are included on investment incentives and general government issues.

II - Background

Introduction

As a result of the consultative process through Voluntary Planning and with the private sector which led to the 1984 White Paper on Economic Development, the Government of Nova Scotia appointed a special Task Force on Investment and Taxation, herein referred to as the Task Force.

In April, 1984 the following members were appointed to the Task Force:

Mr. R. A. Robertson, F.C.A., Chairman
Ms. M. Jill Hamilton
Ms. Elizabeth Hanson
Mr. F.W. Chenhall, C.A.
Mr. F. Thomas Stanfield

In general the Task Force was charged with conducting an intensive examination of all taxes paid in Nova Scotia to determine their effect on the province's business environment. Short- and long-term priorities were to be examined so that changes to the tax system could be made in a cohesive manner with an appreciation of their overall impact on the investment environment.

Specifically, the terms of reference of the Task Force involve preparing a report containing recommendations on:

- suggested changes in the present system of income, municipal and commodity taxation in Nova Scotia that would make the tax climate most conducive to investment in that province;
- the feasibility of replacing existing provincial and/or municipal taxes with taxes not presently being applied in Nova Scotia;
- representations by Nova Scotia to the federal government on possible changes to the federal tax regime;
- ways that the tax system and other non-tax vehicles might be used to increase the flow of savings into productive investment in Nova Scotia; and
- improved avenues for government to consult with the private sector on a continuing basis regarding possible tax changes.

The Task Force established a work program that consisted of:

- requesting submissions from the public at large
- analyzing these submissions
- meeting with various individuals and groups who had made submissions
- retaining consultants to do detailed analyses.

The report of the Task Force provides background material on their work program and then presents recommendations based on their deliberations and their mandate. Appendices list the submissions received and the recommendations contained in the report.

Submissions

In July, 1984, public notices were issued requesting submissions to the Task Force. The mandate of the Task Force was included in these public notices in the Halifax Chronicle Herald and the Globe and Mail. The published deadline for submissions was extended from September 28, 1984 to November 16, 1984 as a result of requests for an extension from various organizations interested in making detailed presentations.

A total of 46 submissions were received over the course of 1984 and 1985. They represented the views of a wide range of Nova Scotians including businessmen, financial and professional organizations and agencies as well as many private citizens.

While most of the papers sent to the Task Force focused on income taxes, sales taxes and municipal taxes, several submissions dealt with a variety of matters including other forms of taxation as well as government fiscal and economic policies. There were several submissions that were not considered in the deliberations as they dealt with matters aside from the mandate of the Task Force such as social policy issues.

The recommendations of submissions received covered a wide range of policy alternatives. Some submissions recommended tax increases while others called for tax decreases. Some submissions requested reductions in government spending. Others suggested less government regulation of the economy.

The majority of the submissions were interested in the taxes that affect businesses and individual investment. Municipal property-related taxes were the subject of numerous presentations. Sales tax and income taxes received almost as much review by contributors.

After reviewing the submissions, the Task Force met with many of the contributors to have a more in-depth discussion of many of the problems cited in their submissions and to expand upon the suggested solutions. The Task Force also met with officials from the government departments directly affected by any alternate policy options that might be recommended. These meetings occurred during the first half of 1985.

Research Projects

The submissions and subsequent meetings indicated to the Task Force that the problems cited and the solutions proposed were complex and could have both positive and negative effects on the economy. The Task Force agreed, therefore, to commission consultants to undertake detailed and neutral analyses of the major taxation areas identified in the submissions.

Three major tax consultant firms were engaged to examine the following topics:

- income tax incentives
- retail sales tax
- commercial and industrial municipal taxation

The consultants began their work in June, 1985 and submitted their reports by the end of the year. These reports proved very useful in helping the Task Force develop the recommendations contained in both the Interim Report and this Final Report.

Interim Report

In the course of the Task Force's work, several problems were identified which presented immediate solutions. To expedite the introduction of these solutions, the Task Force compiled an interim report. It should be noted that the recommendations contained in the interim report did not attempt to cover the complete spectrum of the work of the Task Force. The details supporting and specifying the initial recommendations are contained in this report.

The interim report was sent to the Minister of Finance on January 15, 1986.

III Taxation

Taxation is an integral part of the Nova Scotia investment environment and is the principal component of the mandate of this Task Force.

The submissions highlighted the complexity and diversity of tax matters. However, the scope of the Task Force limited its full review of the submissions to those comments that affected investment in Nova Scotia. Issues that did not directly pertain to taxation as it affects investments, such as social equity under the tax regime, were not considered to be within the mandate of the Task Force.

Taxes are principally a source of government revenue, but the way in which the tax is structured and administered can affect the investment climate. They can also be used to implement government policy via tax exemptions, deductions or credits. Many tax measures are aimed at enhancing investment by individuals and corporations.

Taxation takes many forms in Nova Scotia. Most of the submissions focussed on the following taxes:

- Property and other municipal taxes
- Sales tax and fuel taxes
- Income taxes

Each type of taxation is subject to different constraints and a different degree of provincial government control although there are similar tax concepts used by each. To review all taxes affecting Nova Scotia investment in a comprehensive manner, it was imperative to develop guidelines with which to evaluate tax measures and types of taxation.

From the submissions and research reports, several guidelines for evaluating the tax system as it pertains to investment were repeatedly suggested.

The Task Force adhered to the following generally accepted principles when evaluating the tax structure in Nova Scotia.

1. **EQUITY** Embodied within the equity principle are two, often conflicting, principles: The User Pay Principle, which argues that taxes should be paid in accordance with the benefits received from govenment expenditures; and the Ability to Pay Principle, which argues that taxes should be based on the taxpayer's ability to pay.

2. **EFFICIENCY** - Collection costs should be minimized for government and compliance costs should be minimized for taxpayers.

3. **NEUTRALITY** Taxes should not distort individual choices and hence impede the ability of the free market system to allocate resources efficiently.

4. **CERTAINTY** - A taxpayer should be able to assess his/her own tax liability over a planning period with relative ease and government should be able to anticipate revenues.

Consistent with these principles, the following goals were considered pertinent:

- provide a stable tax environment
- decrease the deficit financing of governments
- harmonize taxes and incentives with government investment and industrial strategy
- minimize the "paper burden" of taxation.

A stable tax environment is a very effective tool to encourage investment; however, it is not simple to achieve. It is not possible to maintain a static tax system given the changing economic environment. A degree of certainty can be maintained if taxes are sound economically and financially. Changes to the tax system should be made primarily to affect long-term policy. The critical factor is to achieve a perception that taxes will not change in a piecemeal fashion. Rather, investors should feel confident that policy changes have given full consideration to the long-term impact on businesses and investments.

With a stable tax regime, businesses are able to make long-range plans with a degree of confidence. As investor confidence increases in an area, so too does the value of investments in that region. This increase should, in turn, expand the tax base to provide the revenues governments need to finance their expenditures. Therefore, **the Task Force recommends:**

1. **The Government of Nova Scotia should promote a stable tax regime.**

One element of government finance critical to the perception of Nova Scotia as a place to invest is the province's financial position. Investors realize that deficit financing cannot continue indefinitely and that deficits ultimately represent deferred taxation. In particular, a deficit that is growing creates an uncertain investment climate. The perception that the deficit will eventually be reduced by tax increases and not by expenditure reductions may turn investors to other jurisdictions. To promote the perception that Nova Scotia has a stable tax environment, **the Task Force recommends:**

2. The Government of Nova Scotia reduce the deficit via expenditure cuts to encourage economic growth and negate the perception that the deficit will be financed by future substantial tax increases.

Tax increases should only be considered in a plan to finance the deficit if the provincial level of taxation is lower than that of jurisdictions that compete for Nova Scotia investment dollars. With a few exceptions, the submissions requested tax decreases. The research studies indicated that Nova Scotia tax rates tend to be closer to the highest provincial tax rates than the lowest rates. While a decrease in tax burden definitely benefits the investment climate, government finances generally eliminate this option. **The Task Force recommends:**

3. The Government of Nova Scotia not raise taxes at this time.

Harmonizing provincial taxes means ensuring that the general tax structure is similar among provinces. In particular, definitions within the statutes are the same under a harmonized tax system. The income tax system is an example of a such a system. The definition of taxable income is generally the same in both the provincial and federal acts; however, there are slight differences in tax rates, deductions and credits. Conversely, the sales tax system in Canada is not a harmonized system. The similarity of tax regimes among the provinces enables investors to understand the taxation structure in the different jurisdictions. A knowledgeable investor is more confident and more likely to invest. For companies that do business in more than one province, a harmonized tax structure helps to reduce the "paper burden" of record keeping for tax purposes. To promote understanding of the tax system **the Task Force recommends:**

4. The Government of Nova Scotia work towards a harmonized tax regime for Nova Scotia in relation to the other provinces.

The tax system can be used to implement government policy either directly or indirectly. Tax deductions or credits are direct government policy initiatives. The general mix of taxes and tax structures indirectly influences the effectiveness of government initiatives. The government investment policy should ensure the most efficient delivery of initiatives either through the tax system or direct government expenditures. **The Task Force recommends:**

5. **The Government of Nova Scotia ensure that tax measures and the tax structure support the broad investment strategies of the province.**

IV Municipal Taxes

Municipal taxation was the most frequently discussed topic by the submittors to the Task Force. The reforms suggested were both specific and general. Property-related taxes together with other appropriate cost items can form a significant factor in the province's image as an area for industrial development.

Provincial legislation provides the authority for municipalities to levy taxes. Through enabling legislation, the province has a specific voice in municipal taxes. However, significant changes in these taxes should only be effected through provincial-municipal agreement. The most significant municipal tax is property tax. In Nova Scotia the municipal taxes that affect investment are:

A. Property Tax
B. Business Occupancy Tax
C. Deed Transfer Tax
D. Change of Use Tax

These taxes and their impact on the business environment were the subject of a Task Force research project.

The municipal research examined, in particular, the relative level of taxes being paid by businesses in Nova Scotia. Comparisons were made between Nova Scotia municipalities and between municipalities in other provinces.

The evaluation of the municipal tax structure in other provinces was limited to those provinces that directly compete with Nova Scotia for investment dollars. In Atlantic Canada, New Brunswick offers location benefits similar to Nova Scotia . For investors considering Eastern Canada, Ontario is often the first location considered. Therefore, the research compares tax levels in Nova Scotia with those in New Brunswick and Ontario.

A. Property Tax

Property tax is levied on business on the basis of the assessed value of property, which includes the structures and equipment on the property. In Nova Scotia, municipalities apply a tax rate per $100 of the full assessed value of business property. For resource and residential properties the tax rate may be applied to a proportion of the assessed value (up to 100%). The assessment of real property is conducted by the province, which ensures that the basis of property evaluation is uniform across Nova Scotia municipalities.

While the province can legislate changes in various areas of municipal taxation, the Task Force agreed that municipal priorities need to be observed. Municipalities are in a favourable position to respond to specific business concerns within their area. Neither fiscal nor policy flexibility should be substantially limited by unilateral Task Force recommendations. This objective was considered as the Task Force examined the assessment structure, its appeal process and property tax incentives.

Property Tax Assessment

The Assessment Act of Nova Scotia specifies that properties should be assessed at their current value. However, reassessments are only required every three years. In the intervening years, assessment values for the purposes of property tax do not change. This results in municipalities increasing their tax rates in the years following a reassessment and then dramatically dropping the rate when the assessments are brought to market value.

In other provinces, in particular New Brunswick, assessments are adjusted to reflect the changes in the property market in years where there is no formal assessment. This practice provides a more accurate tax base and greater stability in the municipal tax base. **The Task Force recommends:**

6. **The Government of Nova Scotia incorporate in the Assessment Act a procedure that will ensure that in each year real property assessments remain as close to market value as possible.**

Business property assessments, particularly in the case of rental properties, usually reflect the ability of the property to generate income. The assessment practice in Nova Scotia generally assumes that the property will earn optimum rent. Unfortunately, in a flexibile economic environment, it is not always possible to collect optimum rents. For example, a long-term lease may be of greater value to the property owner than one year at a maximum rent. Further, the economic value of a rental space that no one will rent is zero, which is surely not the optimal rent. To ensure that the treatment of the assessment of rental properties is at market value, **the Task Force recommends:**

7. **The Government of Nova Scotia amend the Assessment Act to require that rental properties be assessed on the basis of actual rents received rather than optimum occupancy, assuming that the lease arrangement is arms length.**

The most frequently mentioned property tax problem in the submissions was the inclusion of machinery and equipment. The majority of submissions recommended that machinery and equipment be eliminated from the property tax base.

Research indicated that Nova Scotia property tax levels would be very competitive with New Brunswick and Ontario if manufacturing equipment was removed from property tax assessments. At present, New Brunswick's property tax levels are less than in Nova Scotia while Ontario levels are slightly higher. Both New Brunswick and Ontario do not include such machinery in their property assessments. See Table II for an example of the relative municipal tax burdens of a hypothetical manufacturer and a hypothetical food distributor in the three provinces.

Problems arise when firms upgrade or replace their machinery and equipment. The increase in property tax due to the new equipment increases the investment costs. In one Nova Scotia municipal unit, modern equipment was necessary for a company to be competitive. However, the property tax increase would have been substantial without a specific agreement to maintain property tax levels. Special arrangements for individual companies should not be necessary.

Since 1980, the Province has been providing a rebate for municipal taxes paid in respect of the first $1,000,000 of manufacturing machinery and equipment assessed. This provincial expenditure was approximately $2.7 million in 1983-84, which represents roughly 30% of the $8.9 million of the total municipal tax revenues that relate to machinery and equipment. While this tax rebate program is beneficial, it is not sufficient to attract business to Nova Scotia or to change the perception of the Nova Scotia property tax.

As noted in Table III, municipalities received $8.9 million in 1983 from the property tax on machinery. These revenues represent 3.4% of municipal tax revenues. This tax revenue is fairly important to municipalities, and the province should discuss any substantial changes in property tax assessments with municipal governments.

The Task Force was concerned with how the municipalities could be compensated for the exclusion of machinery and equipment from property taxes. Obviously the tax rebate program with expenditures close to $3 million in 1985-86 would be eliminated. The remaining cost of roughly $6 million should be found in other government programs for business. **The Task Force recommends:**

8. **The Government of Nova Scotia seek an agreement with Nova Scotia municipalities to phase out the inclusion of machinery and equipment in the assessments for property tax purposes.**

Over the past two decades, province-wide assessment practices have become the standard. This cohesiveness has provided Nova Scotia business with a simpler property tax system. Although tax rates vary by municipality, the tax base is well understood. Uniform assessment also promotes the perception of fair treatment. The current assessment practice in Nova Scotia treats all sectors on the same basis. While the exemption of machinery and equipment will primarily benefit manufacturers, it will provide all businesses with machinery and equipment with the same exemption. To reaffirm the province-wide assessment structure **the Task Force recommends:**

9. **The Government of Nova Scotia maintain the provincial assessment practices and ensure that all business sectors are treated on an equitable basis.**

Property Assessment Appeals

As with any tax system, the appeal process is extremely important in ensuring that taxpayers are treated fairly.

Table IV provides a description and comparison of the assessment appeal process. Nova Scotia has four levels of appeal:

- Director of Assessment
- Regional Assessment Appeal Court
- Nova Scotia Municipal Board
- Court System.

New Brunswick and Ontario have three levels of appeal. However, the additional appeal level in Nova Scotia is beneficial.

The appeal mechanisms, such as time limitations on tax payments and interest charges, are quite diverse among the three jurisdictions. Of greatest concern among the submissions to the Task Force was the time limitation on notification of appeals and decisions.

The Nova Scotia deadline for an initial appeal is 21 days from the receipt of a notice of assessment and seven days from the date of appeal for a subsequent appeal . These time limits are substantially less than that provided in other jurisdictions. Further, these limits are so tight that many businesses file an appeal prior to reviewing the assessment. Time periods of 30 days for initial appeals and 21 days for subsequent appeals should be sufficient.

Time limits on appeal decisions provide an element of certainty to taxpayers that their tax status will be determined within a fixed maximum time period. There are cases in Nova Scotia that have taken years before a decision is reached. As taxes must be paid despite an appeal, delays cause undue hardship.

While the Regional Assessment Appeal Court is required to provide a decision within 60 days, the Nova Scotia Municipal Board has no time constraints. The Task Force agreed that 90 days should give the Municipal Board sufficient time to review appeals.

The recent trend in tax appeals has been to ensure that interest earned during the appeal process should revert to the correct party when an appeal is finalized. The provincial assessment appeal system does not provide for the payment of interest to a taxpayer. However, interest may be charged on overdue taxes. This inconsistency should be corrected to provide equitable treatment to taxpayers.

Research on the appeal process indicated that the current system of awarding the costs of an appeal is comparable to that provided in New Brunswick and Ontario. Costs are usually awarded at the last level prior to the courts. In Nova Scotia, the Municipal Board has the option to award the costs.

To revise the assessment appeal process to provide equitable and timely treatment of taxpayers, **the Task Force recommends:**

10. The Government of Nova Scotia amend the Assessment Act or other legislation as required to ensure that:

a) deadlines for appeals to notices of assessment be extended from 21 days to 30 days

b) deadlines for appeals to amended notices of assessment be extended from 7 days to 21 days

c) a time limit of 90 days after the hearing be prescribed for the decision from the Nova Scotia Municipal Board

d) taxes overpaid, determined as a result of the successful appeal at the Regional Assessment Appeal Court level, be repayable to the taxpayer notwithstanding further appeal to the Nova Scotia Municipal Board by the municipality

e) taxes overpaid be refunded to the taxpayer with interest at the same rate as that prescribed for interest on overdue taxes.

Property Tax Incentives

Property tax incentives have been introduced for various reasons; however, the usual reason is to encourage a company to locate in a specific municipality. These incentives are among the few levers municipalities can use to attract industry.

In Nova Scotia there is no specific procedure or policy for enabling property tax incentives. Under the Assessment Act, there is no accommodation for specific municipal assessment reductions or exemptions. More often than not, special provincial legislation is required to give the municipalities the authority to provide these incentives under the property tax system.

Municipal governments are the most likely level of government to fully understand the requirements of a specific corporation. The local government is more accessible. The Task Force agreed that municipalities should provide the impetus and control over which companies receive a property tax credit.

A standard policy would facilitate the processing of property tax incentives especially in the case of companies considering locating to the municipality. This type of incentive is the most common. A standard format would be simpler to understand and administer.

To attract new businesses to Nova Scotia municipalities, the phasing in of property taxes over five years would provide assistance over the critical start-up phase. The proportions of taxes that would apply in each year would be up to the individual municipality. The local government has the most to benefit from the new industry and can negotiate the appropriate phase-in schedule. For some industries it would be best to phase in property taxes in equal proportions -- i.e., 20% year 1, 40% year 2, 60% year 3, 80% year 4, 100% year 5. However in other sectors, it may be better to vary the phase-in -- i.e., 5% year 1, 20% year 2, 50% year 3, 75% year 4, 100% year 5. The only stipulation on the credit would be that the full assessment value would be subject to tax in year 5. The tax incentive structure should not allow a business to use the incentive repeatedly throughout Nova Scotia for essentially the same activity. **The Task Force recommends:**

11. The Government of Nova Scotia incorporate in the Assessment Act a provision that will permit a municipality to provide a five year phase-in of the full property assessment for a business locating in the municipality, with a condition that the company intends to remain in that municipality.

B. Business Occupancy Tax

Business occupancy tax is levied on a percentage of commercial property assessment, namely:

- 25% of assessment for tourist related services (hotels, etc.) and motor vehicle dealers
- 75% of assessment for financial institutions
- 50% of assessment for other industries.

The 75% rate is levied on financial institutions because of a perceived ability to pay relative to the value of property. The 25% rate is applicable to sectors that are considered to need encouragement or are under-utilized for part of the year.

Business occupancy tax was the subject of contradictory submissions. Some felt the tax should be eliminated, while others requested that the tax remain separate from the property tax rather than integrated as in New Brunswick. In New Brunswick instead of the business occupancy tax, the total provincial municipal property tax rate is roughly twice the average Nova Scotia municipal commercial property tax rate. As this tax does not in general affect the province's competitive investment position vis-a-vis other provinces, the Task Force did not feel this tax need be eliminated at this time. However, the perception that this tax results in an overall excessive tax burden should be altered. **The Task Force recommends:**

12. The Government of Nova Scotia endeavour to change the perception of the business occupancy tax so that the business community understands that the total property tax burden in Nova Scotia compares favourably with that in Ontario and New Brunswick.

C. Deed Transfer Tax

The deed transfer tax is levied as a percentage of the property value when real estate changes ownership. Not all municipalities apply a deed transfer tax and tax rates vary among the areas that impose this tax. The practice of applying the deed transfer tax when the property is transferred within a corporate group is also inconsistent among municipalities.

It was suggested that the deed transfer tax should not apply when there is no change in the control of assets. A property may change hands during a reorganization of a corporate group, although the actual control of the property has not been altered.

Further, if there is a deed transfer tax it should be uniform across the province. Municipalities that choose to levy this tax should apply it according to provincial standards with the tax rate determined by the municipality. **The Task Force recommends:**

13. The Government of Nova Scotia ensure that where municipalities levy a deed transfer tax:

a) the tax structure and rate be uniform
b) the tax not apply when there is no change in the beneficial ownership of the asset.

D. Change of Use Tax

The change of use tax is a tax that is not a substantial revenue source (Table III), but rather a policy vehicle. The purpose of the tax is to permit lower property tax rates on farming, lumbering and recreational properties until the land is no longer used for these purposes. The tax essentially provides a penalty for not using resource land for resource activity. If the farmer gives up farming but does not use the land for other purposes, the change of use will not likely apply. Usually, the tax applies when the property is put to a new use (often by a new owner). However, a recent court case upheld that the tax should be levied when the property ceases to be used for resource activity.

All of these concerns contribute to tax instability despite the low level of revenue from this source. Both Ontario and New Brunswick use a tax rebate system to achieve similar policy objectives to the Nova Scotia change of use tax. Essentially, the farmer pays property tax to the municipality and then applies for a tax rebate from the provincial government. If there is a change in the use of the lands, then the tax rebate is recovered. In Ontario, the rebate is collected for a maximum of 10 previous years plus interest. The Ontario rebate is illustrated on Table V. These tax rebate systems specifically link the tax assistance to the activity and provide for a certain tax penalty directly related to the prior reduction and benefits received. **The Task Force recommends:**

14. The Government of Nova Scotia revise the change of use tax and resource land assessment system to a tax rebate system similar to that provided in Ontario as a means of providing lower property tax rates to resource lands.

V Provincial Taxes

The province's two major taxes that are completely determined and administered by Nova Scotia are the health services tax (sales tax) and the gasoline and diesel oil tax. Provincial income taxes are administered for Nova Scotia by the federal government and are examined in the next section. Although Nova Scotia levies several other specific taxes, these two were the only ones cited in the submissions of the Task Force. The sales tax and the gasoline tax were considered by contributors and the Task Force to be the principal provincial taxes affecting investment.

A. Health Services Tax

The Nova Scotia health services tax is a retail sales tax. Every purchaser is required to pay the tax at the time tangible personal property is purchased. All vendors in the province are licensed to collect the tax for the province. A retail sales tax has been in place in Nova Scotia since 1959.

Taxes similar to the Nova Scotia sales tax are levied by all provinces except Alberta. The federal government has a sales tax, but it is levied at the manufacturer's level, not the retail level.

Sales taxes affect the investment climate as they:

- increase business costs
- increase the effective retail price of consumer goods.

Business costs increase as a result of the company purchasing taxable items or collecting the tax for the province. How the sales tax interacts with the business community affects the perception of the Nova Scotia government's attitude to business and investment. The effective retail price of goods certainly determines how many Nova Scotians will purchase a product.

From this perspective, the Task Force first addressed the global aspects of the Nova Scotia sales tax, then analyzed its components, namely, the tax base, administration and the appeal process.

Sales Tax Global Issues

Of all the provincial sales taxes, the sales tax in Nova Scotia was found to be one of the least obstructive in its impact on investment. Primarily, this status was achieved by the numerous exemptions provided for specific items. Only Ontario was ranked better in the Task Force research. However, the tax rate was found

to be high in relation to the Western Provinces. Sales tax rates in the Atlantic region are the highest in Canada (see Table VI). While it is theoretically possible that a reduction in the tax rate could increase tax revenues by greater business activity, in the current fiscal situation of the province it is not a feasible measure in the near future. Reiterating an earlier recommendation, the Task Force agreed that the sales tax rate should not be increased at this time.

A very simple sales tax would provide no exemptions. However, such a simple structure in Nova Scotia would not be perceived as fair because the sales tax system in other provinces provides a series of exemptions. To ensure that Nova Scotia's tax system remains competitive, the province should attempt to maintain its investment-related exemptions that are also given in other jurisdictions. A similar tax structure will simplify the system and enhance understanding, especially for companies that are relocating or expanding to Nova Scotia.

Tax harmonization can occur with both the federal and the provincial taxes. While the federal sales tax occurs at the manufacturer's level, similar definitions of taxable and nontaxable items can be used.

It should be emphasized that tax harmonization does not require that taxes be identical. Taxes are considered harmonized if definitions and their interpretations are the same. If several provinces provide a tax exemption for manufacturing equipment, then similar interpretations of what constitutes manufacturing equipment would promote tax harmony. Provincial policy differences can be accommodated. **The Task Force recommends:**

15. The Government of Nova Scotia encourage harmonization among the provincial and federal sales tax systems wherever possible.

The value-added tax (VAT) was examined as an alternative to the present federal-provincial sales tax structure. Several submissions suggested that this form of taxation had merit. The federal government is presently reviewing the VAT form of taxation.

A VAT essentially levies a tax on the purchaser every time a good or service is purchased. A business that purchases goods receives a credit for the VAT included in its purchases, which is then used against the taxes owed when a product is sold. The net effect is to tax only the value that was added to the business's final product. For example, at the manufacturer's level, a VAT would be levied as a percent of the sale price of the product. The manufacturer would receive credit for the VAT already paid on the raw materials used in the manufacture of the product.

Generally, a VAT is levied in all sectors of the economy from primary production on through to the final retail sale. As the VAT is built into the price of the product, VAT is considered an indirect form of taxation.

A VAT could replace both taxes - the Provincial retail sales tax and the federal manufacturers sales tax. However, a VAT is an indirect tax and therefore not within the Province's range of tax options as defined in the constitution.

Many developed nations have reformed their commodity tax structure to replace sales taxes (found at various production levels) with a comprehensive VAT. Tax related problems on goods imported and exported, double taxation and other inequities are considered to be minimized by a VAT form of taxation.

It is potentially a simpler system than the current federal/provincial sales tax plan if all products are subject to the tax at the same rate. As well, a comprehensive VAT can minimize market distortions arising from the current tax treatment with its varying rates on a limited tax base and numerous exemptions.

However, the benefits of a provincial sales tax must be considered in evaluating a national VAT. The provincial sales tax can be used to implement a provincial policy to encourage a specific industry or activity. With local administration a provincial system can be more accessible to local requirements than a national bureaucracy. Moreover, the current system is understood.

A risk with a new tax is that it will be perceived as a "revenue grab" to reduce the national deficit. If the VAT is introduced in such a manner it could lead to the perception that Canada is uncompetitive with its trading partners and thereby discourage investment.

Overall, the VAT system has potential, but the Task Force is very cautious regarding Nova Scotia participation. **The Task Force recommends:**

16. The Government of Nova Scotia examine the value-added tax system, in co-operation with federal research with the following objectives:

a) the VAT should not increase commodity tax revenue

b) the competitive position of Nova Scotia vis-a-vis other provinces and countries should not be jeopardized

c) Nova Scotia should retain essential autonomy of provincial sales tax policy

d) the tax should be simple and comprehensive

e) the tax should use the existing provincial administration.

Tax Base

The tax base for the Nova Scotia sales tax is the value of retail sales of tangible property in Nova Scotia. This tax base is essentially the same for each provincial sales tax in Canada. There are exemptions provided based on the type of the retail sale. For example, machinery and equipment used in manufacturing are exempt from sales tax. Food is exempt from sales tax.

The Task Force received a number of submissions requesting specific exemptions from sales tax. Often the exemption requested did not relate to investment or business activity but rather to social initiatives. The Task Force limited their analysis to business incentives.

The Task Force found through their research that, overall, the Nova Scotia sales tax provided exemptions that exceeded or equalled those provided under other provincial sales taxes (see Table VII). However, there is an area where the sales tax base should be adjusted to harmonize the tax structure with the province's competing jurisdictions.

Construction contracts are taxable in all provinces with a sales tax. However, Nova Scotia is the only province to use two different methods of taxing construction depending on the type of contract. If the contract is a lump sum contract, the tax is based on the cost of materials. If the contract is based on time and materials, the sales tax is based on the selling price of the materials. Other jurisdictions use only the cost of materials basis for sales tax. In the interest of tax harmony and simplicity **the Task Force recommends**:

17. The Government of Nova Scotia amend the Health Services Tax Act to ensure that all construction contracts are taxed on a cost of materials basis.

Tourism is one sector of the Nova Scotia economy that can quickly generate employment and could expand significantly.

Many felt that our tourism industry is hampered by the application of the sales tax to hotel rooms and meals valued over $4.00.

One avenue presented to the Task Force to enhance the tourist activity in Nova Scotia was to offer a tax rebate on taxes paid for hotel rooms and purchases taken out of the province. Ontario has a similar program. The benefit of a tax rebate system is that it can alter the perception of the cost of vacationing in Nova Scotia. The degree to which revenues are lost, however, depends upon tourists using the rebate system.

While tourists who purchase goods for out-of-province use are currently eligible for a refund in Nova Scotia, many do not know how to obtain this refund. A publicity campaign could promote this tax refund provision and provide out-of-province tourists with appropriate forms to apply for the rebate. It was estimated that the rebate program would cost less than $1 million per year in Nova Scotia. To encourage the tourism industry of Nova Scotia, **the Task Force recommends:**

18. **The Government of Nova Scotia promote a tourist tax rebate program which would provide out-of-province visitors to our province a refund on their health services tax paid on hotel rooms and on goods not consumed in Nova Scotia.**

The exemption level for sales tax on meals was increased from $3.00 to $4.00 in 1982. Due to inflation, $4.00 in 1982 is now roughly equivalent to $5.00 in 1986. It should be noted that the Nova Scotia exemption is competitive relative to other provinces. For example in 1982 Ontario eliminated its meal exemption. In New Brunswick the meal exemption is $1.00. However, if the meal exemption level is to be worthwhile it must keep pace with increases in the cost of living. A rough estimate of the revenue cost of increasing the exemption level was approximately $5 million annually. **The Task Force recommends:**

19. **The Government of Nova Scotia amend the health services tax to increase the meal exemption to $5.00 and ensure that the value of the exemption keeps pace with increases in the cost of prepared meals.**

Administration

The Nova Scotia health services tax compares favourably with other jurisdictions in terms of exemptions but not in the area of administration.

The sales tax liability of businesses is perceived to be uncertain in many instances because of the lack of information available to businesses and the assessment practices of auditors. Retail businesses, who collect taxes for government and other businesses often do not fully understand the Health Services Tax Act. All businesses may be subject to these assessments on the basis of their own tax liability. Retailers are also assessed on the taxes they should have collected. There were submissions requesting clearer and stricter guidelines for businesses, out-lining concisely how they should determine their tax liability. In particular, the specific qualifications for a manufacturing or processing equipment exemption were requested.

The administration of the sales tax is seen by many to be unfair and unreasonable because of recent arbitrary assessments that resulted in increased tax liabilities for businesses. These estimated assessments have arisen in instances where a taxpayer either fails to file a return or has insufficient records. The practice of estimated assessments was seen as occurring in too broad a manner. Justification and discussion with the taxpayer regarding estimated assessments are considered necessary.

Further, it was noted that at least one taxpayer who was entitled to a tax refund was unable to use this refund to offset current tax liabilities.

The major problems of sales tax administration are broad but do not reflect legislative inequities. Rather, they appear to reflect problems concerning the administrative methods employed by the Tax Commission as well as the attitude of Tax Commission staff in dealing with retailers. To reform the administrative practices, **the Task Force recommends:**

20. The Government of Nova Scotia take the following steps to begin the process of changing the perception of the health services tax and its administration to that of a fair and reasonable tax:

a) written guidelines on assessment practices and definitions should be published and made available to taxpayers and retailers. In particular, an information booklet should be provided to all new businesses registering to operate in Nova Scotia

b) measures should be taken to assist and instruct auditors to make assessments in a uniform and equitable manner and to assume taxpayers are innocent until proven guilty

c) provision should be made for the offsetting of the overpayment of taxes against tax assessed in any audit period.

Appeal Process

It has been pointed out that the current appeal process does not promote the perception of reasonable and fair treatment for all. The three stages of the formal appeal process are:

1. A notice of objection is filed with the Provincial Tax Commissioner
2. An appeal of the Commissioner's assessment is made to the Minister of Finance
3. The Minister's decision can be appealed to the court system.

The difficulties taxpayers have encountered with assessment and other administrative practices of the Tax Commission can only be appealed through this formal process. This process would generally require a consultant or lawyer. There have also been complaints of significant time delays in ministerial appeals. A more informal process whereby taxpayers could discuss the reasons for assessment or other changes would be beneficial, assuming such a process was separate from the Provincial Tax Commission's actual auditing and assessment activities. **The Task Force recommends:**

21. The Government of Nova Scotia revise the health services tax appeal process in the following manner:

a) an informal appeal process, unrelated to tax administration, be instituted that has the option to change the Commission's interpretation or assessment

b) any conflict of interest in the objection/appeal process be removed

c) legislation be amended to permit the use of a surety bond in lieu of full payment of assessments under appeal and to provide for payment of damages to taxpayers who have been injured financially as the result of delays in the appeal process

d) A time limit be imposed for a decision by the Minister of Finance on an appeal to the Minister.

B. Gasoline and Diesel Oil Tax

The gasoline and diesel oil tax has been levied in Nova Scotia since 1926. The tax is paid on the consumption of gasoline, aviation fuel and other fuels used by vehicles. The tax is currently levied as a percent of the retail price, which is consistent with most provinces levying a similar tax. Recently Ontario and Manitoba have shifted from an ad valorem tax rate (i.e., as a percent of retail price) to a flat rate per litre.

The province exempts fuel used for public services (i.e. fire fighting), for manufacturing, commercial fishing, farming, lumbering, or drilling. This exemption is provided by either the sale of tax-free coloured gas or via a tax rebate. The benefit of a tax exemption at the time of sale is that it is the simpliest system for the consumer. However, it is also easier to misuse this system. Using only a tax rebate system decreases misuse as taxpayers must prove their eligibility and tax collection is eliminated for vendors.

The arguments for both a tax exemption at the time of sale and for a tax rebate after the sale have merit. However, in the absence of strong objection to the current system the Task Force agreed that the present mix of both tax exemptions and tax rebates is satisfactory.

While the submissions specific to the gasoline tax were not numerous, references to this tax were made where the tourist industry was discussed. Gasoline prices are perceived by tourists from the United States as a major deterrent to vacationing in Canada or in Nova Scotia in particular. To provide a comprehensive incentive to American tourists to visit Nova Scotia, **the Task Force recommends:**

22. The Government of Nova Scotia amend the Gasoline and Diesel Oil Tax Act to provide a tax rebate to visitors to Nova Scotia from foreign countries.

C New Provincial Taxes

In reviewing the tax structure of other provinces, the Task Force found that Nova Scotia compared favourably in terms of the type of taxes levied. One investment related tax that is absent in the Province was the capital tax. All provinces except Nova Scotia, Alberta, New Brunswick and Prince Edward Island levy some form of a capital tax (see Table VI). Quebec has been using their capital tax to effectively replace a significant portion of their corporate income tax.

A capital tax is levied on the paid-up capital of a corporation. Paid-up capital generally includes all common and preferred shares, retained earnings and loans received from shareholders, persons or corporations. There are deductions for an investment allowance, goodwill and discounts on shares. The capital tax rates are very low and usually less than 1%. The rates vary in each province by type of industry. The rate charged financial institutions is always the highest and often exceeds 1%.

The Task Force agreed that to finance some of its recommendations that revenue measures in addition to program cuts should be reviewed. Having studied the capital tax, the Task Force found that a capital tax on all business could be detrimental to the Nova Scotia investment climate. Moreover, a broad capital tax would require a new administrative body. In Newfoundland, the capital tax applies only to financial institutions and requires minimal administration. All other provinces with a capital tax levy a higher rate on financial institutions. The Task Force agreed that a capital tax on the finance sector would not adversely affect investment. Revenues from a finance sector capital tax, similar to the Newfoundland tax, would be roughly $5.5 million per year in Nova Scotia. **The Task Force recommends:**

23. The Government of Nova Scotia consider implementing a corporate capital tax on financial institutions.

VI Provincial Income Tax

Provincial income taxes are an integral part of the Nova Scotia economy, and of investment activity in particular. Income taxes affect current liquid assets; they can be used to influence spending decisions. The treatment of capital purchases under the income tax system also influences investment.

Provinces are restricted in their ability to affect investment because the standard income tax base is determined by the federal government. Pursuant to the Canada-Nova Scotia Tax Collection Agreement (TCA), Nova Scotia has agreed to conform its income tax system with the federal system. This co-operation benefits taxpayers as they need complete only one tax form and deal with one administrative body. The cost to government is less because of the single administration. However, Nova Scotia and other provinces that participate in the TCA are limited in the tax policy options they may implement via the income tax system.

Specifically the TCA requires that provincial tax policy be limited to:

- setting tax rates for personal income tax and for corporate income tax
- tax credits.

Tax credits must be approved by the federal government prior to implementation. Generally, the federal criteria for acceptable provincial credits are that they must be administratively feasible and not undermine the general principles of the income tax system. Provinces cannot change the tax deductions or exemptions without withdrawing from the TCA system. To date, Quebec does not participate in the TCA for either individual or corporate income taxes. Ontario and Alberta administer their own corporate income tax.

Since provincial tax credits were first introduced in 1974, the federal definition of an acceptable credit has become more flexible. As the provincial personal income tax revenues are much greater than corporate income tax revenues, the provincial income tax credits have been much more numerous and diverse than corporate income tax credits. **The Task Force recommends:**

24. The Government of Nova Scotia should continue to be an active member of the income tax collection agreement system that promotes simplicity and certainty of taxes and encourage the federal government to be flexible and accommodating in their treatment of provincial income tax credits.

A. Personal Income Tax

Personal income tax is the simplest vehicle that governments can use to influence an individual's spending. Investments by individuals form a critical portion of total investment.

Equity investments by individuals are important to corporations, especially for small or new businesses. All too often, equity in a new company is inadequate or not available which may significantly contribute to business failure. The financing problem has been addressed by various government loan programs. However, these do not increase the equity in firms that require either working or venture capital. Further, without sufficient equity in a firm it is difficult to obtain debt financing.

One of the many reasons why there is a high debt to equity ratio in corporations, is the individual's preference for savings versus equity investment. Grants and tax incentives are two government levers that can be used to encourage equity investments. Grants are, however, often viewed as too complicated and costly to reach individual investors. Tax measures are familiar vehicles for the investor and have met with success in other provinces.

Quebec, and recently Alberta, have introduced tax incentives related to stock investments. An individual's investments in small- to medium-sized Quebec-based companies are eligible for a deduction from Quebec personal income tax. Since this tax measure was introduced in 1980, the deduction from income has been restricted because of initial investment in large companies but is still viewed as a significant factor in the recent rebound in the Montreal Stock Exchange activities. The Quebec tax program is referred to as the Quebec Stock Savings Plan (QSSP). As QSSP investments are a deduction from income, it is only possible for Quebec with its own personal income tax administration to introduce this type of tax measure.

Alberta recently announced a tax credit investment plan called the Alberta Stock Savings Plan (ASSP). The tax credit will equal 30%, 15% or 10% of investments in "emerging", "expanding" or "mature" companies respectively (maximum of $3000 per year). These companies must be listed on the Alberta Stock Exchange and 25% of a company's wages must be paid to employees in Alberta. The federal government has agreed to administer this tax credit.

A Nova Scotia stock savings plan could provide an incentive for direct equity investment in Nova Scotia companies which are presently not well known. Similar savings plans have successfully increased equity investments of individuals. A provincial personal tax income credit for investments in Nova Scotia could be similar to the Alberta system and, therefore, presumably acceptable within the TCA system. Moreover, a stock savings plan in Nova Scotia would eliminate the need for the venture capital program.

However, the Nova Scotia credit should be directed to small companies. The Nova Scotia plan should target companies with less than $5 million in assets and at least 50% of their wages and salaries being paid to employees in the province. These levels emphasize the credit is for investment in companies in their early phase of development. A minimum of three shareholders would encourage an adequate initial equity position for small business. To restrict the abuse of the tax credit and contain costs, a maximum annual limit of $4,000 should apply to the credit. Further, investors should be required to hold their shares for at least three years to stabilize the equity in eligible companies.

The absence of a Nova Scotia stock exchange will present a technical difficulty to a Nova Scotia stock savings plan. In both the Quebec and Alberta plans, eligible companies must be listed on the local stock exchange. This requirement ensures investors access to the company as well as the presentation of information to both the investor and the tax administrators. The Task Force agrees that an implementation group with business representatives, investment dealers and government officials should be able to provide an effective procedure to formulate the Nova Scotia stock savings plan. This type of credit should cost less than $5 million annually. **The Task Force recommends:**

25. The Government of Nova Scotia adopt in principle a Nova Scotia stock savings plan in the form of a tax credit with the following elements:

a) equal to 50% of eligible investments
b) shares of Nova Scotia companies with assets less than $5 million, at least three shareholders, and at least 50% of their wages paid to Nova Scotians would be eligible investments
c) investments must be held for at least three years
d) a maximum annual credit of $4,000 per individual,

and form an implementation group to resolve how both public and private businesses could benefit from this stock savings plan.

B. Corporate Income Tax

The corporate income tax system is viewed as a vehicle to influence corporate investment activity. The corporate income tax structure allows differential treatment of investment in specific areas of Canada. Previously there were substantial tax deductions in the form of accelerated capital cost allowance that encouraged capital investments by companies. In discussions with business, the Task Force found that corporate income tax incentives have been quite effective.

The provincial corporate income tax system essentially mirrors the federal structure pursuant to the Tax Collection Agreement. However, more provinces have opted out of the federal-provincial arrangements for corporate income tax than for personal income tax. Alberta has recently joined Ontario and Quebec as provinces that administer their own corporate income tax. While these provinces maintain their acts in a form similar to the federal act, they do use their policy flexibility to modify their corporate income tax in ways that would not be available to other provinces.

As with the personal income tax policy, provincial corporate income tax policy initiatives are limited to the tax rate adjustments and tax credits. The scope of these initiatives has expanded since the first credits were introduced in 1974. The provincial corporate income tax measures related to the economic activity are basically:

- royalty tax credits
- tax holiday for small business
- research and development investment tax credit.

Nova Scotia's recent research and development investment tax credit was a new innovation in the corporate income tax credit arena.

Another measure has been the small business tax holiday. Over the last five years both Ontario and New Brunswick have provided a tax holiday for small business. Recent simplification of the small business definition affords larger businesses, previously ineligible for the small business tax rate, to benefit from the lower small business tax rate. More businesses are now eligible for the federal small business deduction and the lower provincial tax rate because low cumulative revenues are no longer eligibility criteria. Due to this simplification, these provinces appear to be retracting their tax holiday provisions.

The submissions to the Task Force suggested a variety of tax credits as well as a tax holiday for new small businesses. While each tax credit suggested had its own merits, many were not practical within the current administrative arrangements. More importantly, they may not significantly attract investment to Nova Scotia, as multiple tax credits would increase tax complexity. Investment and equity-related corporate income tax incentives were requested by several submissions. The Task Force concluded that the stock savings tax credit under personal income tax was a more effective vehicle to increase equity investments.

Overall, the Task Force agreed that the most significant corporate income tax assistance to economic growth in Nova Scotia would be to provide a tax holiday for new small businesses. While

many new businesses are not taxable in the first two years, this measure would reward and encourage success. Small business has been shown to be a sector that can create numerous jobs. If this measure is provided for new small business then it is unlikely that any large corporation will benefit from this tax holiday.

The first two years are especially important to a new business. Within this time frame businesses aim to show a profit. Many do not survive these years. Two tax-free taxation years should benefit most successful small businesses. The cost of this measure would be approximately $1 million annually. **The Task Force recommends:**

26. The Government of Nova Scotia implement a tax holiday on small business taxable income for the first two taxation years of a corporation, that is not simply a new corporation by virtue of a name change or an ownership change.

VII Representations to the Federal Government

The Task Force was asked to make recommendations on the federal tax regime which the province could present to the federal government. As noted in the section on Nova Scotia income tax, the federal income tax system has a significantly greater impact on Nova Scotians than the province's taxes. The federal sales tax affects investment in all provinces. Federal regional development grants are also very important to Nova Scotia. Generally the submissions to the Task Force regarding the federal government focussed on these three areas.

A. Income Taxes

The submissions that discussed income taxes focussed on the federal corporate income tax structure. The investment tax credit and capital cost allowance provisions were of specific concern.

The investment tax credit provides a credit against taxes paid equal to a percent of certain types of capital investments. The investment tax credit was recently enhanced in the Atlantic region by the federal budget of February 26, 1986. This budget also eliminated the tax credit in other regions. The Task Force has found this credit to be of benefit to the province. **The Task Force recommends:**

27. The Government of Nova Scotia encourage the federal government to maintain the investment tax credit in the Atlantic region.

Both the investment tax credit and the capital cost allowance provisions are linked to capital purchases. Capital cost allowance is the income tax equivalent of depreciation, which allows a company to deduct the cost of a capital asset from the revenue generated by that asset, over its expected working life.

Prior to the introduction of the investment tax credit (1975), the capital cost allowance provisions were more generous. Accelerated capital cost allowance, which allowed the business to write-off the cost of the asset over a shorter period of time, was then the major investment incentive. Many corporations found accelerated capital cost allowance an effective incentive that financed their 1960's expansion. Today only a very limited class of assets are eligible for accelerated capital cost allowance.

The capital cost allowance provisions have been decreasing as an effective investment incentive. In 1981, the capital cost allowance for the tax year in which the depreciable asset was pur-

chased was cut in half. The 1981 federal budget indicated that this measure saved the federal government $500 million in tax losses. However, this measure specifically discourages capital investment and has potentially negative effects on economic development and technological advances. The **Task Force recommends:**

28. The Government of Nova Scotia encourage the federal government to reinstate the deduction of the full capital cost allowance in the year a depreciable asset is purchased and to consider providing accelerated capital cost allowance to a broader range of assets.

The research of the Task Force identified an attractive tax vehicle which encourages a business to reinvest a portion of its profits. Reinvested profits allows the company to use internal rather than debt financing and to increase the equity in the business.

In Norway, corporations are allowed to set aside up to 22% of taxable income to improve the company's liquidity and strengthen equity. The amount of taxable income given this special treatment is not subject to current taxation. However, if this reserve is withdrawn from the corporation then the withdrawal is subject to tax. This Norwegian strategy directly promotes a lower proportion of debt financing, which is very important to corporate financial vitality. The recent recession has shown that many mature companies can benefit from the use of internal financing. **The Task Force recommends:**

29. The Government of Nova Scotia encourage the federal government to examine and consider introducing a corporate income tax deduction for a portion of taxable income which is retained in the corporation, similar to the Norwegian retained earnings deduction.

B. Federal Sales Tax

The federal sales tax in Nova Scotia principally affects manufacturers. The federal sales tax only applies at the manufacturer's level. While this tax consequently increases retail prices, it is not seen by consumers. This tax is quite complex, with a series of tax rates applying to various products.

The federal sales tax is currently under review by the federal government, and the federal budget indicated that this tax will be replaced. One option is a value-added tax. A similar business transfer tax has also been suggested. The Task Force reviewed the VAT option in reference to the provincial sales tax and provided a cautious recommendation to review the VAT.

On a more technical matter, the federal and provincial sales taxes sometimes use similar definitions of taxable and nontaxable goods. To the extent that these definitions can be the same, the sales tax system is simplier and easier for business. The federal intention to replace their sales tax with a broader form of a transfer tax accentuates the need for harmonized definitions. **The Task Force recommends:**

30. The Government of Nova Scotia encourage the federal government to continue to work towards uniform sales tax definitions.

C. Regional Development Grants

Although federal grants under the Industrial and Regional Development Program are not specifically referred to in the Task Force mandate, these grants are related to investment. It was brought to the attention of the Task Force that the Halifax County region has been classified in the same tier as cities such as Toronto, Ottawa, Vancouver and Montreal which are more developed than Halifax-Dartmouth. The lower the tier, the lower the grants that are available to business in the area. Developed cities in other provinces receive a higher level of grant eligibility. Hull, Quebec and Moncton, New Brunswick are located in Tier II areas. Saint John, New Brunswick and St. John's, Newfoundland are Tier III regions. Classifying Halifax County in Tier I was considered inequitable. **The Task Force recommends:**

31. The Government of Nova Scotia encourage the federal government to revise the Industrial and Regional Development Program classification for Halifax County from Tier I to Tier II, which will provide more appropriate assistance to the area.

VIII Investment Incentives

Since the 1930's governments have been using various incentives to encourage investments. Indirect measures such as improving transportation have been used. Broad tax reductions have been employed to increase consumer demand for business products. Grants and loans to business have also been provided. These direct measures are examined in this section.

The 1979 White Paper on Economic Development noted that "government action must be supportive of business as government cannot do the job for the business community." The White Paper recommended a special committee (which was established in 1984) to review provincial and municipal assistance programs to business in light of these guidelines. This committee has not yet submitted its final report.

Although the Task Force mandate includes making recommendations on investment incentives, due to the work of the special committee, the Task Force has limited its analysis in this area. Tax initiatives are usually the form of incentive preferred by business and the Task Force has concentrated its analysis on these incentives. However, as a result of the submissions and the tax-related research several specific concerns were reviewed.

The Task Force agreed with the White Paper that incentives should be directed in an equitable manner to potentially successful businesses. The Task Force also agreed that government incentives should be:

- simple to both administer and obtain
- responsive to current needs yet consistent over time
- within the fiscal capacity of government.

A. General Programs

Government programs that do not reflect current needs of business are ineffective. Although it is difficult to identify precisely when a program is no longer required, it remains desirable to review programs regularly. However, this review should not present an image that government policy will abruptly change. A stable environment, which was discussed with respect to taxes, also pertains to government programs. Programs should also be consistent in their goals and not work towards opposite ends. **The Task Force recommends:**

32. The Government of Nova Scotia undertake to establish a process where each government business assistance program is reviewed at least every five years to determine if the program has met its objective and if the program will be required over the next five years.

The Task Force agreed with several submissions that suggested government expenditures should provide assistance to companies during their initial years. The recommendation to provide a two-year corporate income tax holiday is consistent with this objective.

Government assistance could be regarded as a recurring revenue source by recipients. Submittors suggested that programs should not support business on a continuing basis. Assistance should be for a specified time period after which the company should be able to survive without further assistance. If this criterion is not followed then the government may be in the potentially uncomfortable position of maintaining a private business.

To promote small business and to encourage success, **the Task Force recommends:**

33. The Government of Nova Scotia orient business incentives towards the initial years of a corporation and to limit assistance to a fixed period of time.

Federal and provincial governments in Canada have been endeavouring to contain their deficits and Nova Scotia is no exception. Tax incentives cost government in the form of revenues not received. Program costs are direct expenditures. The Task Force realizes that the tax incentives proposed will need to be funded. Given this fiscal constraint and the general importance of provincial assistance to business in Nova Scotia, **the Task Force recommends:**

34. The Government of Nova Scotia begin consultations with the business sector with the objective of reducing business assistance programs. In particular, business assistance programs to companies that will benefit from the exclusion of machinery and equipment from the property tax assessment should be commensurately reduced. Further, the venture capital program should be eliminated with the introduction of a Nova Scotia stock savings plan.

Simple administration allows all business access to the programs and decreases government costs and business application costs. Minimizing costs via simple administration also applies to regulations as well as to programs. The Task Force would like to reiterate the White Paper proposal that regulations in Nova Scotia be simplified.

There are a number of loan boards in Nova Scotia. Each one has a specific purpose. While it is important to ensure that the group reviewing the loan application understands the business involved, it may be beneficial to consolidate the loan boards. One loan board could examine loans from various sectors via a subcommittee structure. There could be subcommittees for each sector which would minimize the administration and avoid duplication. The Task Force was pleased to see the consolidation of the loan boards mentioned in the February, 1986 Nova Scotia Throne Speech. In the interest of efficient delivery of economic assistance, **the Task Force recommends:**

35. The Government of Nova Scotia pursue consolidating the operations of Nova Scotia Loan Boards.

The issues of free trade and protectionism were raised in the Task Force deliberations. It has been advocated that less protectionism and related trade restrictions will enhance the province's economic developments and productivity in the long run. **The Task Force recommends:**

36. The Government of Nova Scotia promote a mature and long-term attitude towards relaxed trade restrictions and endeavour to determine the impact of fewer trade barriers.

Training is another issue of long-term economic development that was presented to the Task Force. The current emphasis on management training and on training in fields with future business prospect should continue. As a general comment **the Task Force recommends:**

37. The Government of Nova Scotia promote training in the areas of business requirements.

B. Specific Incentives

Rent controls form a disincentive for business investment. Limitation and simplification of government regulation promote a good investment climate. It was brought to the attention of the Task Force that the controls on rent discourage real estate investment. There are many ways to phase out controls. For example, rent above a fixed level (initially quite high) could be free of controls and eventually this fixed level will become nominal as inflation increases all rents above this threshold. **The Task Force recommends:**

38. The Government of Nova Scotia implement recommendation 19 of the Nova Scotia Commission of Inquiry on Rents to phase out rent controls.

The current Homeowners Incentive Grant Program provides some assistance to the construction sector. As housing starts in Nova Scotia have recovered from their recent recession, this tax rebate is not as important as it once was. If rent controls are phased out, there will be further assistance to the housing sector. Moreover, the earlier recommendation to provide uniform sales tax treatment of construction contracts will benefit this sector. **The Task Force recommends:**

39. The Government of Nova Scotia consider eliminating the Homeowners Incentive Grants.

It is very difficult for Nova Scotians to invest in local companies. The public companies located in the province are not always known to the investing public. Regional investors are more likely to invest in local companies as they are more knowledgeable about the economic potential of their area. In part, the presence of venture capital programs attests to the need for equity financing.

For Eastern Canada, the Toronto and Montreal Stock Exchanges are the only local arenas for stock investment. However, from their listings it is not possible to isolate either Nova Scotia or Atlantic companies. In the Western provinces there are two additional local exchanges - the Vancouver and the Alberta Stock Exchanges. While a Halifax or an Atlantic stock exchange may faci-

litate equity investment it was not clear that an exchange should be recommended at this time. A special arrangement with either of the existing eastern exchanges, which would provide an Atlantic securities listing of public companies, may be a good alternative. An over the counter market would also provide investors access to Atlantic companies. Further, such arrangements would ease the introduction of the previously recommended Nova Scotia stock savings plan. **The Task Force recommends;**

40. The Government of Nova Scotia seek a special arrangement with the Toronto or Montreal Stock Exchanges or develop a local over-the-counter market for the listing of Nova Scotia or Atlantic companies, in conjunction with the local investment community.

IX General Government

Through the Task Force discussions it was clear that to promote investment, the government tax and expenditure system must be consistent. To achieve a consistent system, business must perceive few obstacles to the continuity of existing taxes and expenditures. Unfortunately the provincial deficit and debt levels promote an image of future tax measures and expenditure decreases.

To alter this image, the submissions to the Task Force clearly suggested the implementation of a fiscal plan and management tools that would decrease the deficit and make government expenditures more effective. While some suggestions for efficiency improvements were impractical, most were valid. A five-year plan to systematically eliminate the Nova Scotia current account deficit would improve the perception of Nova Scotia as a place to invest. However, to design a practical plan, the Government must have the best possible forecast of revenues and expenditures for a five-year period. Econometric models provide this type of information as well as provide the ability to analyze the effect of tax and expenditures measures on the economy in general. The province should have this tool for improved fiscal management.

The Task Force was unable to estimate the financial and economic impact of all of its recommendations because of the lack of a Nova Scotia econometric model that contained a detailed government sector. **The Task Force recommends:**

41. The Government of Nova Scotia devise and implement a five-year deficit reduction and fiscal managment plan with the assistance of an internally maintained Nova Scotia econometric model that includes a detailed government sector.

As part of the fiscal plan, several submissions requested expenditure reductions. While most cuts suggested were general, one proposal could both decrease government expenditures and enhance economic activity. It was suggested that where ever possible the government contract out services to the private sector. Often what is done in the public sector can also be provided by private business. As a result of the competitive corporate environment, the private sector can sometimes provide these services at a lower cost. In addition, by providing government contracts to consultants, the service sector develops skills that can become saleable in other sectors or to other governments.

To determine which services the private sector can provide for the Government of Nova Scotia, an external review is necessary. An independent review could be objective. The assistance of government departments should also be encouraged in identifying services that could be privatized.

c) a time limit of 90 days after the hearing be prescribed for the decision from the Nova Scotia Municipal Board

d) taxes overpaid, determined as a result of the successful appeal at the Regional Assessment Appeal Court level, be repayable to the taxpayer notwithstanding further appeal to the Nova Scotia Municipal Board by the municipality

e) taxes overpaid be refunded to the taxpayer with interest at the same rate as that prescribed for interest on overdue taxes.

11. Incorporate in the Assessment Act a provision that will permit a municipality to provide a five year phase-in of the full property assessment for a business locating in their municipality, with a condition that the company intends to remain in that municipality.

12. Endeavour to change the perception of the business occupancy tax so that the business community understands that the total property tax burden in Nova Scotia compares favourably with that in Ontario and New Brunswick.

13. Ensure that where municipalities levy a deed transfer tax:

a) the tax structure and rate be uniform
b) the tax not apply when there is no change in the beneficial ownership of the asset.

14. Revise the change of use tax and resource land assessment system to a tax rebate system similar to that provided in Ontario as a means of providing lower property tax rates to resource lands.

Provincial Taxes

15. Encourage harmonization among the provincial and federal sales tax systems wherever possible.

16. Examine the value-added tax system, in co-operation with federal research with the following objectives:

a) the VAT should not increase commodity tax revenue

b) the competitive position of Nova Scotia vis-a-vis other provinces and countries should not be jeopardized.

c) Nova Scotia should retain essential autonomy of provincial sales tax policy

d) the tax should be simple and comprehensive

e) the tax should use the existing provincial administration.

17. Amend the Health Services Tax Act to ensure that all construction contracts are taxed on a cost of materials basis.

18. Promote a tourist tax rebate program which would provide out-of-province visitors to our province a refund on their health services tax paid on hotel rooms and on goods not consumed in Nova Scotia.

19. Amend the health services tax to increase the meal exemption to $5.00 and ensure that the value of the exemption keeps pace with increases in the cost of prepared meals.

20. Take the following steps to begin the process of changing the perception of the health services tax and its administration to that of a fair and reasonable tax:

a) written guidelines on assessment practices and definitions should be published and made available to taxpayers and retailers. In particular, an information booklet should be provided to all new businesses registering to operate in Nova Scotia

b) measures should be taken to assist and instruct auditors to make assessments in a uniform and equitable manner and to assume taxpayers are innocent until proven guilty

c) provision should be made for the offsetting of the overpayment of taxes against tax assessed in any audit period.

21. Revise the health services tax appeal process in the following manner:

a) an informal appeal process, unrelated to tax administration, should be instituted that has the option to change the Commission's interpretation or assessment

b) any conflict of interest in the objection/appeal process should be removed

c) legislation should be amended to permit a surety bond in lieu of full payment of assessments under appeal and to provide for payment of damages to taxpayers who have been injured financially as the result of delays in the appeal process

To provide more efficient services and encourage the service sector, **the Task Force recommends:**

42. The Government of Nova Scotia endeavour to contract out government services that could be provided by the private sector as recommended by an independent review.

Privatization of government services lead to an examination of provincial crown corporations. In other jurisdictions, there has been a recent initiative to privatize crown corporations. This policy has been based on a desire to decrease government competition with the private sector and to decrease the total debt of governments. While in Nova Scotia there are not as many crown companies as in some other provinces, the possibility of privatization should be reviewed. If these crown corporations became publically traded, Nova Scotians may directly invest in their future. As with all private companies, these privatized crown agencies would then be required to generate profits. **The Task Force recommends:**

43. The Government of Nova Scotia examine the possibility of converting crown corporations, which are potentially profitable, into private sector public companies.

Consultation and co-operation between government and other sectors of the economy is essential for co-ordinated economic development. The Task Force attempted to present the current views of business and the individual on taxation and investment. However, the issues and the structure of tax and investments will change in part because of the Task Force and as the economy moves forward.

The Task Force and submittors perceived a need to develop a regular consultative body with whom government could consult on taxation matters. Currently there are a number of business interest groups which meet with government at various times but on an ad hoc basis. A tax advisory group would provide an opportunity for pre-budget consultations and could be used to examine new or alternative tax structures or measures. Such a body would also provide a focus for business and economic concerns regarding tax matters.

While simplicity in the tax system is a goal, the unravelling of the existing complexities must be done carefully so that new problems are not created. The appointment of the tax advisory group should be similar to the Task Force with members of business and tax-related professions. In particular, interested groups should be asked to appoint representatives to the council. As well, their term should be from 2-3 years to provide continuity and yet new ideas. The tax advisory group would hopefully meet quarterly with an annual consultation with the Minister of Finance.

Given the existing composition of the Task Force, it may be useful to use the Task Force as the interim tax advisory group until the first group has been assembled. **The Task Force recommends:**

44. The Government of Nova Scotia establish a tax advisory group consisting of representatives from business and the tax professions that would meet annually with the Minister of Finance to discuss taxation issues.

TABLE I

FINANCIAL IMPACT OF TASK FORCE RECOMMENDATIONS

No.	Recommendation [1]	Government Affected	Potential Annual Revenue or Expenditure Increase or Reduction
7.	Amend Assessment Act to require that rental properties be assessed on the basis of actual rents received rather than optimum occupancy, assuming the lease arrangement is arms length.	Municipal	Revenue reduction - variable, depending on municipality.
8.	Seek an agreement with Nova Scotia municipalities to phase-out the inclusion of machinery and equipment in assessments for property tax purposes.	Municipal Provincial	Revenue reduction - approximately $9 million; depending on agreement. See Table III.
18.	Promote a tourist tax rebate program that would provide out-of-province visitors a refund on health services tax paid on hotel rooms and on goods not consumed in Nova Scotia.	Provincial	Revenue reduction - approximately $1 million.
19.	Amend the health services tax to increase the meal exemption to $5.00 and ensure that the value of the exemption keeps pace with increases in the cost of prepared meals.	Provincial	Revenue reduction - approximately $5 million.
22.	Amend the Gasoline and Motive Fuel Tax Act to provide a tax rebate to visitors to Nova Scotia from other countries.	Provincial	Revenue reduction - unknown.
23.	Consider implementing a corporate capital tax on financial institutions.	Provincial	Revenue increase - approximately $5.5 million.

1 - Only recommendations that have a direct revenue or expenditure impact have been listed.

No.	Recommendation	Government Affected	Potential Annual Revenue or Expenditure Increase or Reduction
25.	The Government of Nova Scotia adopt in principle a Nova Scotia Stock Savings Plan, in the form of a tax credit with the following elements: a) equal to 50% of eligible investments b) shares of Nova Scotia companies with assets less that $5 million, at least three shareholders and 50% of their wages are paid to Nova Scotians would be eligible investments c) investments must be held for at least three years d) a maximum annual credit of $4,000 per individual, and form an implementation group to resolve how both public and private businesses could benefit from this stock savings plan.	Provincial	Revenue reduction - approximately $5 million.
26.	Implement a tax holiday on small business taxable income for the first two taxation years of a corporation, that is not simply a new operation by virture of a name change or an ownership change.	Provincial	Revenue reduction - approximately $1 million.
28.	Encourage the federal government to reinstate the deduction of the full capital cost allowance in the year a depreciable asset is purchased and to consider providing accelerated capital cost allowance to a broader range of assets.	Federal Provincial	Revenue reduction - Approximately $500 million for the Federal Government (See Federal Budget Papers November 1981) and $5 million for Nova Scotia.
29.	Encourage the federal government to examine and consider introducing a corporate income tax deduction for a portion of taxable income which is retained.	Federal Provincial	Revenue reduction - unknown value.

No	Recommendation	Government Affected	Potential Annual Revenue or Expenditure Increase or Reduction
31.	Encourage the federal government to revise the Industrial and Regional Development Program classification for Halifax County from Tier I to Tier II which will provide more appropriate assistance to the area.	Federal	Expenditure increase
34.	Begin consultations with the business sector with the objective of reducing business assistance programs. In particular, business assistance programs to companies that will benefit from the exclusion of machinery and equipment from the property tax assessment should be commensurately reduced. Further, the venture capital program should be eliminated with the introduction of a Nova Scotia stock savings plan.	Provincial	Expenditure reduction - total unknown. $4 million could be recouped from the elimination of the property tax rebate program and the venture capital program.
39.	Consider eliminating the Homeowners Incentive Grants	Provincial	Expenditure reduction - $3.3 million
41.	Devise and implement a five-year deficit reduction and fiscal management plan with the assistance of an internally maintained Nova Scotia econometric model that includes a detailed government sector.	Provincial	Expenditure increase to develop model.
42.	Endeavour to contract out government services that could be provided by the private sector as recommended by an independent review.	Provincial	Expenditure reduction

TABLE II

Burden of Municipal Taxes on Hypothetical Sample Industries

Manufacturer (1)

Tax Liability ($)	Urban	Town	Rural
Nova Scotia	$231,314	$203,655	$157,651
New Brunswick	223,158	142,965-172,302	140,411
Ontario	100,257-783,577	565,651	109,211
Tax Liability/Total Investment (%)			
Nova Scotia	4.53%	3.99%	3.09%
New Brunswick	4.37	2.80	2.75
Ontario	1.96 to 15.35	11.08	2.14

Food Distributor (1)

Tax Liability ($)			
Nova Scotia	$ 68,176	$ 60,024	$ 46,466
New Brunswick	71,433	45,763-55,154	44,946
Ontario	32,092-250,822	181,064	34,958
Tax Liability/Total Investment (%)			
Nova Scotia	4.81%	4.23%	3.27%
New Brunswick	5.03	3.23-3.89	3.17
Ontario	2.26-17.68	12.76	2.46

(1) Assessment Assumptions ($,000)	Real Property	Business Occupancy	Machinery & Equipment
Manufacturer	4,433	2,117	672
Food Distributor	1,419	710	nil

TABLE III
Municipal Tax Revenues
1983

	Cities		Towns		Rural Areas		Total	
	% of Total	$000's	% of Total	$000's	% of Total	$000's	% of Total	$000's
Total Tax Revenue	100.0	$129,329	100.0	$ 58,691	100.0	$ 77,153	100.0	$265,173
Machinery & Equipment	2.1	2,696	4.5	2,646	4.6	3,551	3.4	8,893
Business Occupancy	14.9	19,244	11.3	6,649	5.5	4,248	11.4	30,141
Change In Use	—	—	—	—	.27	208	.08	208
Deed Transfer	3.1	3,951	1.0	607	2.8	2,138	2.5	6,696

TABLE IV
Property Tax Appeal System
Levels of Appeals

Level	Nova Scotia	New Brunswick	Ontario
First	Director of Assessment	Minister of Municipal Affairs	N/A
Second	Regional Assessment Court	Regional Assessment Review Board	Assessment Review Board
Third	Nova Scotia Municipal Board	N/A	Ontario Municipal Board
Fourth	Court System	Court System	Court System

Comparison of Various Appeal System Matters

	Matter	Nova Scotia	New Brunswick	Ontario
1.	Deadline for appeal to level 1 (from receipt of notice of assessment)	21 days	60 days	N/A
2.	Time limit on decision from level 1 (from date of appeal)	No provision	90 days	N/A
3.	Deadline for appeal to level 2 (from mailing of decision at level 1)	7 days	21 days	21 days
4.	Time limit on decision from level 2 (from date of hearing)	60 days	No provision	No provision
5.	Deadline for appeal to level 3 (from mailing of decision at level 2)	30 days	N/A	21 days
6.	Time limit on decision from level 3 (from date of hearing)	No provision	N/A	No provision
7.	Deadline for appeal to level 4 (from mailing of decision at previous level)	30 days	30 days	15 days
8.	Overpaid taxes repayable notwithstanding further appeal	No	Yes	No
9.	Interest accrued on taxes overpaid	No	Yes	Municipal discretion
10.	Costs awarded at level 2	No	Yes	Not at present but to be introduced.
11.	Costs awarded at level 3	Yes	N/A	Yes

TABLE V

Ontario Farm Tax Reduction Program

Example of a Farm with $1000 in property taxes

Year I

Rebate (60% of property tax)	600
Cumulative Rebate - From Previus Year	---
- Interest (10%)	---
Total Rebate Received to Date	600

Year 2

Rebate	600
Cumulative Rebate - From Previous Year	600
- Interest (10%)	60
Total Rebate Received to Date	1260

Year 3

Rebate	600
Cumulative Rebate - From Previous Year	1260
- Interest	126
Total Rebate Received to Date	1986

Year 4 - Change of Use identified

Tax Rebate owing	1986

Table VI

COMPARATIVE PROVINCIAL TAX RATES - AS OF 1985-86 PROVINCIAL BUDGETS

Tax (%)	N.S.	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	P.E.I.	Nfld.
Personal Income (% of Federal Basic Tax)	56.5	47.52 (2)	43.5	50	54	50	(1)	58.0	52.5	60
Surtax (% of Provincial Tax)	Nil	10 (3)	Nil	1-12 (4)	20 (5)	3 (6)	Nil	Nil	Nil	Nil
Corporation Income (% of taxable income)										
- General Rate	15	16	11	16	16	15.5 (7)	5.5-13	15	10	16
- Small Business Rate	10	8	5	0-10 (8)	10	10 (9)	3	5	10	10
Orporation Capital (%)	Nil	0.2 (10)	Nil	0.3 (11)	0.2 (10)	0.3 (12)	.45 (13)	Nil	Nil	1.5 (14)
Insurance Premiums Tax (%)	2-3	3	2	2-3	2	2-3	2-3	2-3	2	2
Gasoline (% of retail price)	20	20	Nil	Nil	8.0¢/ltr (15)	8.8¢/ltr	30	20	20	22
Diesel (% of retail price)	21	(16)	Nil	(17)	9.2¢/ltr (18)	9.9¢/ltr	(19)	23	23	26
Retail Sales - General Rate (%)	10	7	Nil	5	6	7	9	11	10	12

Footnotes:

1. Province of Quebec levies its own tax which has an approximate range of 50% - 60% of Federal Basic Tax.
2. Achieved by a temporary global 8% surcharge.
3. On provincial tax payable in excess of $3500.
4. Surtax of 12% on provincial tax payable in excess of $4000. Flat tax of 1% on net income above $10,000, 1985-86.
5. On taxable incomes in excess of $25,000.
6. Applied to Ontario tax payable in excess of $5,000, effective 1986.
7. 14.5% Manufacturing & Processing, Mining, Logging, Farming & Fishing Income; 15.5% General Rate. Ontario's corporate tax collection is done directly.
8. 0% applies to manufacturing and processing income, effective January 1, 1984.
9. For three fiscal years ending between May, 1982 and May, 1985. The rate was 0%.
10. Rate for banks is 2.0%; rate for loan and trust companies is 0.6%. To be phased out by April 1, 1987 for all but non-B.C. banks.
11. Rate for banks, loan and trust companies os 0.8%, insurance companies are tax exempt.
12. Rate for banks is 0.8%; rate for loan and trust companies is 0.6%.
13. Rate for banks, loan and trust companies is 0.9%.
14. Rate only on banks, loan and trust companies.
15. Advalorem rate of 20% was effectively frozen in 1982-83
16. Fixed at .44 cents/litre in addition to the rate on gasoline.
17. Diesel fuel used in railway locomotives taxed at 13.6¢ per litre.
18. 115% of gasoline tax rate.
19. Same percentage of retail sales price as for gasoline only when this percentage exceeds the equivalent 5.5 cents/litre.

Table VII

COMPARATIVE ANALYSIS OF RETAIL SALES TAXES IN CANADA - AS OF 1985-86 PROVINCIAL BUDGETS

Tax Rate in Effect	N.S. 10%	NFLD. 12%	P.E.I. 11%	N.B. 11%	Que. 9%	Ont. 7%	Man. 6%	Sask. 5%	Alta. 0% (no tax)	B.C. 7%
Manufacturers/Producers - Primary and Secondary Industry										
Prod. Equipment	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Not exempt	Not exempt	N/A	Safety Equip. only
Raw Material	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	N/A	Exempt
Consumed Materials	Exempt	Exempt for Direct Agents/ Catalysts only	Not exempt	Exempt for Direct Agents/ Catalysts	Exempt for certain items	Exempt	Exempt for Direct Agents/ Catalysts only	Not exempt	N/A	Exempt for Direct Agents Catalysts onl
Pol. Control. Equip.	Nebulous exempt as admin.	Not exempt	Exempt	Not exempt	Not exempt	Exempt	Not exempt	Not exempt	N/A	Not exempt
Service Industries										
No. exemp. with the exception of:										
Resales	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	N/A	Exempt
Transportation Industry										
a. Interprov.Carriers -ISTA	Pro Rata Taxation	Pro Rata Taxation	Pro Rata Taxation	Pro Rata Taxation	Pro Rata Taxation	Pro Rata Taxation	Pro Rata Taxation	Pro Rata Taxation	N/A	Pro Rata Taxation
b. Manufact/Producers conveying own goods to other provinces.	Double Taxation	Double Taxation	Double Taxation	Double Taxation	Double Taxation	Double Taxation	Double Taxation	Double Taxation	N/A	Double Taxation
Construction Industry										
a. Lump sum Contracts (fixed price)	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	N/A	Taxed on Materials cost
b. Time and Materials Contracts (cost plus)	Taxed on S/P of materials	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	Taxed on materials cost	N/A	Taxed on materials cost

Appendix I

Task Force on Investment and Taxation

Recommendations

. The Nova Scotia Task Force on Investment and Taxation recommends that the Government of Nova Scotia:

1. Promote a stable tax regime.

2. Reduce the deficit via expenditure cuts to encourage economic growth and negate the perception that the deficit will be financed by future substantial tax increases

3. Not raise taxes at this time.

4. Work towards a harmonized tax regime for Nova Scotia in relation to the other provinces.

5. Ensure that tax measures and the tax structure support the broad investment strategies of the province.

Municipal Taxes

6. Incorporate in the Assessment Act a procedure that will ensure that in each year real property assessments remain as close to market value as possible.

7. Amend the Assessment Act to require that rental properties be assessed on the basis of actual rents received rather than optimum occupancy, assuming that the lease arrangement is arms length.

8. Seek an agreement with Nova Scotia municipalities to phase out the inclusion of machinery and equipment in the assessments for property tax purposes.

9. Maintain the provincial assessment practices and ensure that all business sectors are treated on an equitable basis.

10. Amend the Assessment Act or other legislation as required to ensure that:

    a) deadlines for appeals to notices of assessment be extended from 21 days to 30 days

    b) deadlines for appeals to amended notices of assessment be extended from 7 days to 21 days

d) a time limit should be imposed for a reply on a notice of appeal to the Minister of Finance.

22. Amend the Gasoline and Diesel Oil Tax Act to provide a tax rebate to visitors to Nova Scotia from foreign countries.

23. Consider implementing a corporate capital tax on financial institutions.

Provincial Income Tax

24. Continue to be an active member of the income tax collection agreement system that promotes simplicity and certainty of taxes and encourage the federal government to be flexible and accommodating in their treatment of provincial income tax credits.

25. Adopt in principle a Nova Scotia stock savings plan in the form of a tax credit with the following elements:
a) equal to 50% of eligible investments
b) shares of Nova Scotia companies with assets less than $5 million, at least three shareholders, and at least 50% of their wages paid to Nova Scotians would be eligible investments
c) investments must be held for at least three years
d) a maximum annual credit of $4,000 per individual,
and form an implementation group to resolve how both public and private businesses could benefit from this stock savings plan.

26. Implement a tax holiday on small business taxable income for the first two taxation years of a corporation, that is not simply a new corporation by virtue of a name change or an ownership change.

Representation of the Federal Government

27. Encourage the federal government to maintain the investment tax credit in the Atlantic region.

28. Encourage the federal government to reinstate the deduction of the full capital cost allowance in the year a depreciable asset is purchased and to consider providing accelerated capital cost allowance to a broader range of assets.

29. Encourage the federal government to examine and consider introducing a corporate income tax deduction for a portion of taxable income which is retained in the corporation, similar to the Norwegian retained earnings deduction.

30. Encourage the federal government to continue to work towards uniform sales tax definitions.

31. Encourage the federal government to revise the Industrial and Regional Development Program classification for Halifax County from Tier I to Tier II, which will provide more appropriate assistance to the area.

Investment Incentives

32. Undertake to establish a process where each government business assistance program is reviewed at least every five years to determine if the program has met its objective and if the program will be required over the next five years.

33. Orient business incentives towards the initial years of a corporation and to limit assistance to a fixed period of time.

34. Begin consultations with the business sector with the objective of reducing business assistance programs. In particular, business assistance programs to companies that will benefit from the exclusion of machinery and equipment from the property tax assessment should be commensurately reduced. Further, the venture capital program should be eliminated with the introduction of a Nova Scotia stock saving plan.

35. Pursue consolidating the operations of the Nova Scotia Loan Boards.

36. Promote a mature and long term attitude towards relaxed trade restrictions and endeavour to determine the impact of fewer trade barriers.

37. Promote training in the areas of business requirements.

38. Implement recommendation 19 of the Nova Scotia Commission of Inquiry on Rents to phase out rent controls.

39. Consider eliminating the Homeowners Incentive Grants.

40. Seek a special arrangement with the Toronto or Montreal Stock Exchanges or develop a local over-the-counter market for the listing of Nova Scotia or Atlantic companies, in conjunction with the local investment community.

General Government

41. Devise and implement a five-year deficit reduction and fiscal management plan with the assistance of an internally maintained Nova Scotia econometric model that includes a detailed government sector.

42. Endeavour to contract out government services that could be provided by the private sector as recommended by an independent review.

43. Examine the possibility of converting crown corporations, which are potentially profitable, into private sector public companies.

44. Establish a tax advisory group consisting of representatives from business and the tax professions that would meet annually with the Minister of Finance to discuss taxation issues.

Appendix II

Submissions

The Task Force received written material (articles, briefs, reports or letters) from the following groups and individuals:

ABS Productions Ltd., Dartmouth, N.S.

Amherst Area Industrial Commission, Amherst, N.S.

Appraisal Institute of Canada - Nova Scotia Chapter and Nova Scotia Association, Halifax, N.S.

Associated Freezers of Canada Ltd., Dartmouth, N.S.

Atlantic Petroleum Association, Dartmouth, N.S.

Atlantic Provinces' Transportation Commission, Moncton, N.B.

Atlantic Shopping Centres Ltd., Stellerton, N.S.

Barrett Lumber Co. Ltd., Lower Sackville, N.S.

Ben's Ltd., Halifax, N.S.

Bowater Mersey, Liverpool, N.S.

Canadian Bankers Association - Nova Scotia Committee Halifax, N.S.

Canadian Federation of Independent Business, Halifax, N.S.

Canadian Manufacturers Association, Nova Scotia Branch, Halifax, N.S.

Canadian National Institute for the Blind, Halifax, N.S.

Canadian Petroleum Association - Nova Scotia Branch, Halifax, N.S.

Canadian Property Tax Agents Association, Toronto, Ont.

Chase, Lloma Jane, Halifax, N.S.

City of Dartmouth Industrial Commission, Dartmouth, N.S.

Committee - Firms Marketing Tradeable Services

Construction Association of Nova Scotia, Halifax, N.S.

Doane Raymond, Halifax, N.S.

Esso Petroleum Ltd., Dartmouth, N.S.

First Atlantic Capital, Halifax, N.S.

Halifax Board of Trade, Halifax, N.S.

Halifax Developments Ltd., Halifax, N.S.

Institute of Chartered Accountants of Nova Scotia, Halifax, N.S.

Investment Dealers Association - Atlantic District Council, Halifax, N.S.

Irving, Charles J. Sr., Hackett's Cove, N.S.

Liverpool-Queens County Development Commission, Liverpool, N.S.

Lunenburg County Christmas Tree Producers Association, Bridgewater, N.S.

MacDonald, John, Shelburne, N.S.

Marathon Realty Company Ltd., Halifax, N.S.

Markborough Properties Ltd., Toronto, Ont.

Marshall, Douglas F., Hopewell, N.S.

Montreal Investment Management Inc., Montreal, Que.

Retail Council of Canada, Toronto, Ont.

Rusk, John J., Tantallon, N.S.

Schaefer, Clive, Halifax, N.S.

Scotia Bond Company Ltd., Halifax, N.S.

Shaw, Bernard, Granville Ferry, N.S.

Smith, Ann, Jordon Falls, N.S.

Sydney Harbour Ports Regional Development Board, North Sydney, N.S.

Twohig, Edd W., Kentville, N.S.

Union of Nova Scotia Municipalities, Halifax, N.S.

Voluntary Planning, Halifax, N.S.

WR Benjamin Products Ltd., Springhill, N.S.